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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 000553

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SUBJECT: NABUCCO IGA: TURKEY SHIFTING THE BLAME TO THE EU?

Classified By: Ambassador James Jeffrey for reasons 1.4 (B) and (D)

¶1. (C) Summary. In the lead up to April 6 POTUS visit, Ambassador urged Energy Minister Guler to make progress now with Azerbaijan on gas transit issues so the East-West energy corridor can become a reality. Guler alternatively blamed the EU Commission and Azerbaijan for lack of progress on this issue. The EU's insistence on imposing EU rules and regulations on Turkey (while at the same time withholding membership) and inability to find a compromise solution that will allow Turkey to buy some gas from the corridor are to blame. Hoping to head-off further negative publicity and shift the blame elsewhere, Guler said he drafted a letter to the EU Commission and Nabucco EU member states requesting their proposals to help Turkey with its gas supply needs. For its part, Azerbaijan's distortion of Turkey's negotiating position on gas price, unwillingness to come to the negotiating table and pursuit of profit (not strategic alliance with Europe) by selling gas into Turkey's market are the real impediments to progress, argued Guler. It is sometimes hard to figure Turkey out. The whole country is attacking the government as "betraying Azerbaijan" for a possible deal with Armenia while PM Erdogan allows his energy guy to diddle Azerbaijan on a true game changer, gas corridor to Europe, for benefits and on the basis of logic alien to us. End summary.

It's all the EU's fault

¶2. (C) The EU is to blame for slow progress on Nabucco said Guler. The project lost almost a year with Van Aarsten at the helm and now the EU is creating problems for the Intergovernmental Agreement (IGA) on Nabucco. He complained the EU is inserting lots of EU Acquis criteria on tax treatment and other issues into the document. As proof, Guler flashed a draft of the IGA with several lines of inserted text per page, which he claimed represented new EU demands.

¶3. (C) The main outstanding issue of the negotiations continues to be the extent to which an East-West energy corridor will also help Turkey meet its growing gas needs. Guler dismissed as "unworkable" the proposal by Austrian company OMV/German company RWE (Nabucco consortium members) to sell SD II gas to Turkey. He complained bitterly that "no one" is helping Turkey meet its security of supply needs, despite the fact the issue has been raised with the EU Commission and Nabucco partners for over a year. Turkey is being blamed unfairly for indecision and lack of progress caused by a disorganized and dysfunctional EU which is trying to pursue three different agendas (i.e. that of the Commission, the member states, and the Nabucco consortium companies).

14. (C) Guler said he will write a letter to the EU Commission and the EU member states asking for their help in coming up with a solution to meet Turkey's energy needs. The other states have had the luxury of ignoring this issue while blaming Turkey for lack of progress. They must be responsible for helping us find a solution, he insisted. (Note: The Commission did propose the idea of Caspian Development Corporation to bundle European demand and lure Turkmen gas westward. The concept is currently under study at the World Bank.)

And Azerbaijan is no help either

15. (C) Turkey's positions are being mis-represented by Azerbaijan, Guler complained. Turkey is willing to pay a "market price" for gas, both for Shah Deniz Phase I and II. Turkey is not offering some "comical price" as is rumored, instead the price is good, in the neighborhood of USD 350/tcm. He cautioned "market prices" does not mean equal prices. Turkey will not consent to pay the same price as consumers in Baumgarten because transportation costs to Turkey (a part of the overall price) are less. Guler showed the Ambassador a draft MOU between Turkey and Azerbaijan in which SOCAR offered to sell 8 bcm into Turkey. This combined with SOCAR's recent MOU with Gazprom proved, in Guler's mind, that Azerbaijan was not seeking a strategic relationship with Europe by the sale of this gas, as is often said by US officials. Rather, it was willing to sell as much gas to Turkey as Turkey wants, the catch is SOCAR wants to be able to market it and make the profit.

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16. (C) According to Guler, he has invited Azerbaijan Energy Minister Aliyev to come to Turkey for negotiations on gas transit and gas sales for Turkey several times. The ball is now in Aliyev's court. On April 12, Guler told the press that the Ministers of Azerbaijan, Greece, Italy and Turkey would come together at the end of the April in Istanbul to discuss gas pipeline projects. Although it wasn't clear, Guler may have been referring a ministerial on energy security hosted by the Turkish War Colleges that will take place in Istanbul April 28-29. According to the organizers, ministers from Russia, the Netherlands, Italy, Egypt Georgia and Azerbaijan are confirmed. U.S. representation is still undecided.

17. (C) Comment: Guler's frustration with the EU is not new. He has often complained about the double standard of the EU seeking to impose its rules and regulations on Turkey without opening the door for EU membership. Even a small EU gesture, like opening the Energy Chapter for EU accession negotiations would likely improve the tone of the negotiations for the Nabucco IGA. In writing to the EU Commission and EU member states, Guler is seeking to shift the blame from Turkey to the EU. Without a solution to what Turkey views as its number one concern (more gas for the domestic market), Turkey is unlikely to be ready to initial the Nabucco IGA in the May/June timeframe, as some private companies had hoped. And, it's not only about gas supplies. Turkey appears to be in a high-stakes game with Azerbaijan. Both appear to think they have the upper hand, either with transit rights or gas production. Meanwhile, Russia is making inroads with both.

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Jeffrey